

Message Text

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LIMDIS-GREENBACK

DEPARTMENT PASS TREASURY

E.O. 11652: GDS

TAGS: EFIN, GW

SUBJECT: HISS ON INTERNATIONAL MONETARY REFORM

1. SUMMARY: FINANCE MINISTRY ASSISTANT SECRETARY HISS IN A CONVERSATION TODAY WITH THE FINANCIAL ATTACHE, EXPRESSED GENERAL SATISFACTION WITH LAST WEEK'S C-20 DEPUTIES MEETING. HE FELT THAT THE DEPUTIES HAD CARRIED MATTERS AS FAR AS THEY COULD AND SOME MINISTERIAL COMPROMISES WERE NOW NEEDED PARTICULARLY ON THE INTERRELATED QUESTIONS OF THE ADJUSTMENT PROCESS AND ASSET SETTLEMENT. CONCERNING US MEASURES TO HELP MAINTAIN THE EXCHANGE VALUE OF THE DOLLAR, HISS GAVE A VERY CLEAR FIRST PRIORITY TO CONTINUED TIGHTENING CREDIT POLICIES AND HIGH SHORT-TERM INTEREST RATES. END SUMMARY

2. HISS FELT THAT THE C-20 DEPUTIES HAD GONE AS FAR AS THEY COULD AND SOME DECISIONS FROM MINISTERS WERE NOW REQUIRED. HE FELT THAT THE EUROPEANS HAD SHOWN CONSIDERABLE FLEXIBILITY OF TRYING TO FIND COMPROMISES ON THE ADJUSTMENT PROCESS AND THIS CONNECTION PARTICULARLY POINTED TO THE PROPOSAL BROSSOLET MADE AT THE LAST MEETING. HISS HOPED THAT THE US
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SIDE NOW FOR ITS PART COULD SHOW SOME FLEXIBILITY

ON ASSET SETTLEMENT. HE HOPED THAT THE MINISTERS COULD MAKE PROGRESS ON THESE TWO INTERRELATED QUESTIONS (ASSET SETTLEMENT/ADJUSTMENT PROCESS) AND URGED THAT THE US AT THE JULY 30 MEETING NOT PRESS FOR EQUAL TIME FOR CAPITAL CONTROLS AND THE EXCHANGE RATE REGIME SINCE THE MINISTERS WERE ALREADY ON RECORD ON THE LATTER WITH A RELATIVELY LIBERAL (FLEXIBLE) VIEW AND PRESSING THESE TWO ISSUES NOW MIGHT IN HIS VIEW RESULT IN SOME BACK-SLIDING BY THE FRENCH.

3. IN RESPONSE TO QUESTIONS CONCERNING RECENT PUBLIC STATEMENTS BY STATE SECRETARY POEHL AND SPD POLITICIANS THAT THE US SHOULD MAKE A LARGER CONTRIBUTION TO THE STABILIZATION OF THE EXCHANGE VALUE OF THE DOLLAR, HISS MENTIONED AS MOST IMPORTANT A CONTINUED TIGHTENING OF CREDIT POLICIES. WHILE ARGUING THAT IN THE INTERNATIONAL CONTEXT CREDIT POLICIES SHOULD BE GIVEN PRIORITY IN THE POLICY MIX, HE ALSO WONDERED WHETHER THERE MIGHT BE A POSSIBILITY OF SOME TAX INCREASES OR TEMPORARY TAX SURCHARGES. HE STRESSED THAT THERE WAS NO INTENTION TO PRESENT A SUGGESTED PROGRAM TO THE US, BUT THERE WAS THE HOPE THAT THE US WOULD TAKE CONVINCING ACTION TO MAINTAIN ITS NEW INTERNATIONAL COMPETITIVENESS ALSO BY INTERNAL POLICY MEASURES. ON THE EXTERNAL SIDE, HISS MENTIONED US INTERVENTIONS (EVEN IF WITH BORROWED MONEY), GOLD SALES, AND A POSSIBLE BOND ISSUE ON THE EURO-MARKET AS POSSIBLE MEASURES, BUT HE CONCEDED THAT SOME OF THESE WERE LARGELY DESIRABLE FOR PSYCHOLOGICAL REASONS AND ONE COULD NEVER BE SURE IF IN FACT THEY WOULD ACHIEVE THEIR DESIRED EFFECT. THE FINANCIAL ATTACHE GAINED THE IMPRESSION THAT THE RECENT CALL FOR MORE US ACTION HAD MAINLY ORIGINATED ON THE POLITICAL LEVEL.
HILLENBRAND

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